

Internal Revenue bulletin

Bulletin No. 1997-35
September 2, 1997

HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

SPECIAL ANNOUNCEMENT

Announcement 97-86, page 9.

The Tenth Annual Institute on Current Issues in International Taxation, co-sponsored with The George Washington University, will be held December 11 and 12, 1997, at the J.W. Marriott Hotel in Washington, DC.

INCOME TAX

Rev. Rul. 97-35, page 4.

Mutual life insurance companies; differential earnings rate. The differential earnings rate for 1996 and the recomputed differential earnings rate for 1995 are set forth for use by mutual life insurance companies to compute their income tax liabilities for 1996.

Announcement 97-88, page 9.

Qualified personal service corporations that used the incorrect tax rates on their income tax returns should promptly file amended returns.

EMPLOYEE PLANS

Notice 97-47, page 5.

Guidelines are set forth for determining for August 1997 the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for purposes of the full funding limitation of section 412(c)(7) of

the Code as amended by the Omnibus Budget Reconciliation Act of 1987 and by the Uruguay Round Agreements Act (GATT).

EXEMPT ORGANIZATIONS

Announcement 97-85, page 8.

A list is given of organizations now classified as private foundations.

ADMINISTRATIVE

Notice 97-48, page 5.

This notice sets forth the 1997 changes to Publication 1187, Specifications for Filing Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, Magnetically or Electronically (Rev. Proc. 96-11, 1996-1 C.B. 578).

Announcement 97-79, page 8.

The number of medical savings accounts established as of April 30, 1997, used to determine whether 1997 is a "cut-off" year, is provided.

Announcement 97-87, page 9.

The Collection Financial Standards used by the Service as the basis for determining collection actions, including installment agreements and offers in compromise, are now on the Internet.

Finding Lists begin on page 12.
Index for July and August begins on page 14.



Department of the Treasury
Internal Revenue Service

Mission of the Service

The purpose of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our prod-

ucts and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency, and fairness.

Statement of Principles of Internal Revenue Tax Administration

The function of the Internal Revenue Service is to administer the Internal Revenue Code. Tax policy for raising revenue is determined by Congress.

With this in mind, it is the duty of the Service to carry out that policy by correctly applying the laws enacted by Congress; to determine the reasonable meaning of various Code provisions in light of the Congressional purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

At the heart of administration is interpretation of the Code. It is the responsibility of each person in the Service, charged with the duty of interpreting the law, to try to find the true meaning of the statutory provision and not to adopt a strained construction in the belief that he or she is "protecting the revenue." The revenue is properly protected only when we ascertain and apply the true meaning of the statute.

The Service also has the responsibility of applying and administering the law in a reasonable, practical manner. Issues should only be raised by examining officers when they have merit, never arbitrarily or for trading purposes. At the same time, the examining officer should never hesitate to raise a meritorious issue. It is also important that care be exercised not to raise an issue or to ask a court to adopt a position inconsistent with an established Service position.

Administration should be both reasonable and vigorous. It should be conducted with as little delay as possible and with great courtesy and considerateness. It should never try to overreach, and should be reasonable within the bounds of law and sound administration. It should, however, be vigorous in requiring compliance with law and it should be relentless in its attack on unreal tax devices and fraud.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly and may be obtained from the Superintendent of Documents on a subscription basis. Bulletin contents of a permanent nature are consolidated semiannually into Cumulative Bulletins, which are sold on a single-copy basis.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and proce-

dures must be considered, and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.

This part is divided into two subparts as follows: Subpart A, Tax Conventions, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.

With the exception of the Notice of Proposed Rulemaking and the disbarment and suspension list included in this part, none of these announcements are consolidated in the Cumulative Bulletins.

The first Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a quarterly and semiannual basis, and are published in the first Bulletin of the succeeding quarterly and semiannual period, respectively.

The contents of this publication are not copyrighted and may be reprinted freely. A citation of the Internal Revenue Bulletin as the source would be appropriate.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

Section 809. — Reduction in Certain Deductions of Mutual Life Insurance Companies

26 CFR 1.809-9: Computation of the differential earnings rate and the recomputed differential earnings rate.

Mutual life insurance companies; differential earnings rate. The differential earnings rate for 1996 and the recomputed differential earnings rate for 1995 are set forth for use by mutual life insurance companies to compute their income tax liabilities for 1996.

Rev. Rul. 97-35

This revenue ruling contains the differential earnings rate for 1996 and the recomputed differential earnings rate for 1995. Under § 809 of the Internal Revenue Code, mutual life insurance companies use these rates in computing their Federal income tax liability for taxable years beginning in 1996. This revenue ruling also contains the figures on which the determinations of these rates are based. Notice 97-17, 1997-10 I.R.B. 34, contained tentative determinations of these rates.

Section 809(a) provides that, in the case of any mutual life insurance company, the amount of the deduction allowable under § 808 for policyholder dividends is reduced (but not below zero) by the “differential earnings amount.” Any excess of the differential earnings amount over the amount of the deduction allowable under § 808 is taken into account as a reduction in the closing balance of reserves under subsections (a) and (b) of § 807. The “differential earnings amount” for any taxable year is the amount equal to the product of (a) the life insurance company’s average equity base for the taxable year multiplied by (b) the “differential earnings rate” for that taxable year. The “differential earnings rate” for the taxable year is the excess of (a) the “imputed earnings rate” for the taxable year over (b) the “average mutual earnings rate” for the second calendar year preceding the calendar year in which the taxable year begins. The “imputed earnings rate”

for any taxable year is the amount that bears the same ratio to 16.5 percent as the “current stock earnings rate” for the taxable year bears to the “base period stock earnings rate.”

Section 809(f) provides that, in the case of any mutual life insurance company, if the “recomputed differential earnings amount” for any taxable year exceeds the differential earnings amount for that taxable year, the excess is included in life insurance gross income for the succeeding taxable year. If the differential earnings amount for any taxable year exceeds the recomputed differential earnings amount for that taxable year, the excess is allowed as a life insurance deduction for the succeeding taxable year. The “recomputed differential earnings amount” for any taxable year is an amount calculated in the same manner as the differential earnings amount for that taxable year, except that the average mutual earnings rate for the calendar year in which the taxable year begins is substituted for the average mutual earnings rate for the second calendar year preceding the calendar year in which the taxable year begins.

The stock earnings rates and mutual earnings rates taken into account under § 809 generally are determined by dividing statement gain from operations by the average equity base. For this purpose, the term “statement gain from operations” means “the net gain or loss from operations required to be set forth in the annual statement, determined without regard to Federal income taxes, and ... properly adjusted for realized capital gains and losses....” See § 809(g)(1). The term “equity base” is defined as an amount determined in the manner prescribed by regulations equal to surplus and capital increased by the amount of nonadmitted financial assets, the excess of statutory reserves over the amount of tax reserves, the sum of certain other reserves, and 50 percent of any policyholder dividends (or other similar liability) payable in the following taxable year. See § 809(b)(2), (3), (4), (5) and (6). Section 1.809-10 of the Income Tax Regulations provides that the equity base includes both the asset valua-

tion reserve and the interest maintenance reserve for taxable years ending after December 31, 1991.

Section 1.809-9(a) of the regulations provides that neither the differential earnings rate under § 809(c) nor the recomputed differential earnings rate that is used in computing the recomputed differential earnings amount under § 809(f)(3) may be less than zero.

For purposes of § 809, the differential earnings rate for 1996 and the rate used to calculate the recomputed differential earnings amount for 1995 (the recomputed differential earnings rate for 1995), and the figures on which these two rates are based are set forth in Table 1.

Rev. Rul. 97-35 Table 1

Determination of Rates To Be Used for Taxable Years Beginning in 1996

Differential earnings rate	
for 1996	6.447
Recomputed differential earnings rate for 1995	0
Imputed earnings rate	
for 1995	12.625
Imputed earnings rate	
for 1996	15.669
Base period stock earnings rate	18.221
Current stock earnings rate for 1996	17.303
Stock earnings rate for 1993	23.385
Stock earnings rate for 1994	11.437
Stock earnings rate for 1995	17.087
Average mutual earnings rate	
for 1994	9.222
Average mutual earnings rate	
for 1995	16.477

DRAFTING INFORMATION

The principal author of this revenue ruling is Katherine A. Hossofsky of the Assistant Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling contact Ms. Hossofsky on (202) 622-3477 (not a toll-free number).

Part III. Administrative, Procedural, and Miscellaneous

Weighted Average Interest Rate Update

Notice 97-47

Notice 88-73 provides guidelines for determining the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of § 412(c)(7) of the Internal Revenue Code as amended by the Omnibus Budget Reconciliation Act of 1987 and as further amended by the Uruguay Round Agreements Act, Pub. L. 103-465 (GATT).

The average yield on the 30-year Treasury Constant Maturities for July 1997 is 6.51 percent.

The following rates were determined for the plan years beginning in the month shown below.

Month	Year	Weighted Average	90% to 107% Permissible Range	90% to 110% Permissible Range
August	1997	6.85	6.16 to 7.33	6.16 to 7.53

DRAFTING INFORMATION

The principal author of this notice is Donna Prestia of the Employee Plans Division. For further information regarding this notice, call (202) 622-6076 between 2:30 and 4:00 p.m. Eastern time (not a toll-free number). Ms. Prestia's number is (202) 622-7377 (also not a toll-free number).

Notice 97-48

Revenue Procedure 96-11, Publication 1187, Specifications for Filing Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, Magnetically or Electronically, will not be reissued for Tax Year (TY) 97 filing, which is processed in 1998. Following are the changes that have occurred since the 1/96 revision:

1. The ZIP Code has changed from 25401-1359 to 25402-1359 for the IRS P.O. Box address for the Martinsburg Computing Center.



If by Postal Service:

IRS-Martinsburg Computing Center
Information Reporting Program
P. O. Box 1359, MS-360
Martinsburg, WV **25402**-1359

or

If by private delivery service:

IRS-Martinsburg Computing Center
Information Reporting Program
Route 9 and Needy Road, MS-360
Martinsburg, WV 25401

2. To provide clarification of the correction process for Forms 1042-S, the following definitions have been provided:
 - a. **A void record** is an information return (Form 1042-S) submitted by the transmitter to replace a previously filed incorrect original return. A void record must be a duplicate of the original successfully processed return with the exception of a "V" in field position 371 of the "Q" record. **This record can be filed with or without a corresponding "C" record.** For example, a Form 1042-S was submitted, and it should have been prepared as a Form 1099. A "Q" record with the original Form 1042-S information would be filed with a "V" in position 371. In this instance, a corresponding "C" coded "Q" record would **NOT** be necessary.
 - b. **A correction** is an information return (Form 1042-S) submitted by the transmitter to correct a return that was successfully processed by IRS/MCC, but contained erroneous information. A "C" in field position 371 of the "Q" record identifies a correction record. **This record must always have a corresponding "V" coded record.**

Following is a chart showing the steps to be taken for correcting Forms 1042-S:

Guidelines for Filing Corrected Returns Magnetically/Electronically

Transaction 1: Identify incorrect returns (void process)

The record sequence for filing corrections is the same as for original returns. Create the file in the following order exactly the same as the original transmission:

- a. Transmitter "T" Record
- b. Recipient "Q" Record with the exact information as submitted originally, however,
- c. Place a "V" (See Note) in field position 371 of the "Q" Record
- d. Prepare a Withholding Agent "W" Record summarizing the preceding "V" Coded "Q" Records. (See sample format below.)

☞ **Note: A "V" coded "Q" Record may or may not have a corresponding "C" Coded "Q" Record.**

Transaction 2: Report the correct information (correction process)

On the same media or electronic submission, prepare:

- a. Recipient "Q" Record with the correct information
- b. Place a "C" (**See Note**) in Field Position 371 of the "Q" Record
- c. Prepare a Withholding Agent "W" Record summarizing the preceding "C" coded "Q" records
- d. Prepare an End of Transmission "Y" record
- e. "V" and "C" Coded Corrected returns submitted to IRS/MCC **must** be in the same submission.

☞ **Note : Each "C" Coded "Q" Record MUST have a corresponding "V" Coded Record**

Sample data sequences for void/ correction records:

T

Q with V

Q with V

Q with V

Q with V

Q with V

Q with V

W

Q with C

Q with C

Q with C

Q with C

W

Y

3. "T" Record—Change Tax Year (positions 2–3) to 97 for income and withholding reported for 1997 (unless reporting for a different tax year). All other "T" record data fields in the 1/96 revision remain the same.
4. "Q" Record Changes—The following fields (items A–E) indicate changes made to the information contained in the 1/96 revision. All other "Q" record data fields remain the same.

Positions	Field Title	Length	Description and Remarks						
(A) Field Position 112 has changed to include the definition for the Individual Taxpayer Identification Number.									
112	Type of TIN	1	This field is used to identify the Taxpayer Identification Number (TIN) in positions 112–121 as either an Employer Identification Number (EIN), or a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN). Enter the appropriate code from the following table:						
<table><tr><th>Type of TIN</th><th>Type of Account</th></tr><tr><td>1</td><td>EIN</td></tr><tr><td></td><td>A business, organization, sole proprietor, or other entity</td></tr></table>				Type of TIN	Type of Account	1	EIN		A business, organization, sole proprietor, or other entity
Type of TIN	Type of Account								
1	EIN								
	A business, organization, sole proprietor, or other entity								

2	SSN	An individual, including a sole proprietor
		OR
	ITIN	An individual required to have a taxpayer identification number, but who is not eligible to obtain an SSN
	Blank	If the type of TIN is not determinable, enter a blank.

(B) The Form 1042-S Paper instructions are updated each year. Changes are made to the list of Country Codes at that time.

137-138	Country Code	2	The list of country codes included in the 1997 Paper Instructions for Forms 1042-S should be used to ensure the proper coding of the country code field.
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(C) In addition to the Income Code information provided in the Publication 1187, the following information is included as a result of the tax law change in the reporting of Canadian Interest.

355-356	Income Code	2	Use Income Code 1 for the reporting of interest payments to Canadian residents who are not U.S. citizens
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(D) In addition to the Exemption Code information provided in the Publication 1187, the following information is included as a result of the tax law change in the reporting of Canadian Interest.

370	Exemption Code	1	Use Exemption Code 2 for the reporting of interest payments to Canadian residents who are not U.S. citizens.
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(E) The title of this field position changed.

371	Original, Void, or Corrected Return Indicator	1	Required. Enter the one position code below to identify an Original, Incorrect or Corrected Return. (See Part A. Sec. 13.)
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Code	Description
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Zero	If this is an Original Return.
V	Enter a "V" to void the incorrect original return submitted. (See Transaction 1)
C	Enter a "C" if this is to identify the Correct Return. (See Transaction 2)

5. "W" Record—Change Tax Year (positions 2-3) to 97 for income and withholding reported for 1997 (unless reporting for a different tax year).

6. In all records, alpha characters entered must be upper case.

7. Notice to filers:

Format changes to accommodate Year 2000 will occur for **TY98** in calendar year **1999**.

Treasury has mandated that all electronic year dates exchanged with non-IRS organizations, both government and private, both input and output, shall adhere to the following:

— All Gregorian date formats will be in the format 'YYYYMMDD'.

— All other year date formats (e.g., Julian, Tax Period, Cycle Dates) will expand representations from two-digit year to four-digit year: 'YYYY'.

Part IV. Items of General Interest

Medical Savings Accounts Announcement 97-79

Purpose

Sections 220(i) and (j) of the Internal Revenue Code provide that if the number of medical savings accounts (MSAs) established as of April 30, 1997, exceeds 375,000, then September 1, 1997, is a "cut-off" date for the MSA pilot project. The Internal Revenue Service has determined that the applicable number of MSAs established as of April 30, 1997, is 7,383. Consequently, September 1, 1997 is not a "cut-off" date for the MSA pilot project. A second determination of whether 1997 will be a cut-off year, based on whether the number of MSAs established as of June 30, 1997 exceeds 525,000, will be made by October 1, 1997. See section 220(j)(1)(B) of the Code.

Background

The Health Insurance Portability and Accountability Act of 1996 added section 220 to the Code to permit eligible individuals to establish MSAs under a pilot project effective January 1, 1997. The pilot project has a scheduled "cut-off" year of 2000, but may have an earlier "cut-off" year if the number of individuals who have established MSAs exceeds certain numerical limitations. See sections 220(i) and (j).

If a year is a "cut-off" year, section 220(i)(1) generally provides that no individual will be eligible for a deduction or exclusion for MSA contributions for any taxable year beginning after the cut-off year unless the individual (A) was an active MSA participant for any taxable year ending on or before the close of the cut-off year, or (B) first became an active MSA participant for a taxable year ending after the cut-off year by reason of coverage under a high deductible health plan of an MSA-participating employer.

Section 220(j)(1) provides that the numerical limitation for 1997 is exceeded if the number of MSAs established as of April 30, 1997, is more than 375,000, or if the number of MSAs established as of June 30, 1997, is more than 525,000. Under section 220(j)(3), in determining whether any calendar year is a cut-off

year, the MSA of any previously uninsured individual is not taken into account. In addition, section 220(j)(4)(D) specifies that, to the extent practical, all MSAs established by an individual are aggregated and two married individuals opening separate MSAs are to be treated as having a single MSA for purposes of determining the number of MSAs.

Based on Forms 8851 provided by MSA trustees and custodians, it has been determined that 9,720 taxpayers have established MSAs as of April 30, 1997. Of this total, 1,787 taxpayers were reported as previously uninsured, and are therefore not taken into account in determining whether 1997 is a cut-off year. In addition, 550 taxpayers were reported as excludable from the count because their spouse also established an MSA. Accordingly, because the applicable number of MSAs established as of April 30, 1997, 7,383 (9,720 minus (1,787 plus 550)) is less than 375,000, 1997 is not a cut-off year for the MSA pilot project. The Service intends to publish another announcement, not later than October 1, 1997, concerning whether 1997 is a cut-off year based on the number of MSAs established as of June 30, 1997.

Questions regarding this announcement may be directed to Felix Zech in the Office of Associate Chief Counsel (Employee Benefits and Exempt Organizations) at (202) 622-4606 (not a toll free number).

Foundations Status of Certain Organizations

Announcement 97-85

The following organizations have failed to establish or have been unable to maintain their status as public charities or as operating foundations. Accordingly, grantors and contributors may not, after this date, rely on previous rulings or designations in the Cumulative List of Organizations (Publication 78), or on the presumption arising from the filing of notices under section 508(b) of the Code. This listing does *not* indicate that the organizations have lost their status as organizations described in section 501(c)(3), eligible to receive deductible contributions.

Former Public Charities. The following organizations (which have been treated as organizations that are not private foundations described in section 509(a) of the Code) are now classified as private foundations:

Advanced Communications Technology Training Youth Inc., Chelsea, MA
All Pakistan Womens Association, Inc., New York, NY
Back Bay Lacrosse, Inc., Portland, ME
Boy Scouts of America Troop 73 BSA, Hillsboro, NH
Broadway Fillmore Area Council, Inc., Buffalo, NY
Brockton City Arts, Inc., Brockton, MA
Budget Counseling and Education Centers of North Carolina, Inc., Richmond, VA
Butler County Crime Stoppers Inc., David City, NE
California Book Exchange and Recyclery, Rancho Santa Fe, CA
California Podiatric Medical Foundation, Sacramento, CA
Charles and Margaret Mraz Foundation, Clinton, WA
Chelmsford Odyssey of the Mind, Inc., Chelmsford, MA
Community Conciliation Center, Inc., Flushing, NY
Crossroads Ministries and Publications, Rancho Cordova, CA
Downriver Theatre Company, Machias, ME
Drum Corps East, Inc., South Weymouth, MA
Eagles of Dixon School, Chicago, IL
East End Rural Preservation Corporation, Shelter Island, NY
Eastern Mass Jr Drum & Bugle Corps, Quincy, MA
Eco Village at Ithaca Inc., Ithaca, NY
Ecoworld-Ekomir, Olympia, WA
Eleanor Roosevelt Institute for Justice & Peace, Washington, DC
Errol W. Ross and Eaden Ross Silverton Union High School No. 7J Graduate Assistance Fund, Inc., Salem, OR
Fisheries Defense Fund, Inc., New York, NY
Formosa Center, Inc., Flushing, NY
George Snively Research Foundation, Wakefield, RI
Geogroup, Inc., Menlo Park, CA
Green Hornets of Valley Stream, Inc., Valley Stream, NY
Gods Glory Missions Ministries Church

of God in Christ, Lakewood, CA
 Gay Men and Lesbians Opposing
 Violence, Washington, DC
 Harvard World Model United Nations,
 Cambridge, MA
 Hinsdale Commercial & Industrial
 Development Corporation,
 Hinsdale, NH
 Kafanm, Inc., Dorchester, MA
 K & M New Life Home Inc., Stockton, CA
 Keren Hatzole Institute, Ltd.,
 Brooklyn, NY
 Le Studio Theatre C A, Inc.,
 New York, NY
 Life House, Inc., Worcester, MA
 Mass Metrowest Chapter Black Data
 Processing Associates, Northboro, MA
 Medical Outcomes Trust, Inc., Boston,
 MA
 Micah Housing, Inc., Fairfield, CT
 Middlesex Industrial Development
 Council, Ltd., Middletown, CT
 Morningside Community Association,
 Inc., New York, NY
 National Federation of the Blind of
 Maine, Portland, ME
 New York Association of Suicidology,
 Bronx, NY
 Palabras De Vida, Inc., North Haven, CT
 Peaceable Kindom, Inc.,
 Long Beach, NY
 Pomfret House, Inc., Woodstock, NY
 Portland Environmental Watch,
 Portland, ME
 Prevention Point Buffalo, Inc.,
 Buffalo, NY
 PTA New Hampshire, Londonderry, NH
 Renacer Rebirth, Inc., New York, NY
 Rockingham Optimist Foundation, Inc.,
 Rockingham, NC
 Sadat Peace Institute, Cambridge, MA
 Self Development Group, Inc.,
 Roslindale, MA
 Serving Our Youth Through Adults-
 SOYA, New York, NY
 Shalheves Incorporated,
 Spring Valley, NY
 Simsbury Sterring Committee for Alcohol
 & Drug-Free Use, Simsbury, CT
 Stillhouse Trestle Corporation,
 Danville, VA
 10 Penny Productions, Inc., New York, NY
 Theatre Investment Fund Limited,
 New York, NY
 Unity Productions, Inc., New York, NY
 Western New York Lacrosse Association,
 Inc., Blasedell, NY
 Westlands Schools Association, Inc.,
 Chelmsford, MA

Weston Friendly Society of the
 Performing Arts, Inc., Weston, MA
 Youthbrook Project Inc., Cambridge, MA
 Yvonne Carroll Parente Presents the
 Company, Inc., Glen Head, NY

If an organization listed above submits information that warrants the renewal of its classification as a public charity or as a private operating foundation, the Internal Revenue Service will issue a ruling or determination letter with the revised classification as to foundation status. Grantors and contributors may thereafter rely upon such ruling or determination letter as provided in section 1.509(a)-7 of the Income Tax Regulations. It is not the practice of the Service to announce such revised classification of foundation status in the Internal Revenue Bulletin.

Announcement 97-86

Assistant Commissioner (International) John T. Lyons has announced The Tenth Annual Institute on Current Issues in International Taxation, co-sponsored with The George Washington University, to be held December 11 and 12, 1997, at the J.W. Marriott Hotel in Washington, DC.

Designed for professionals in international tax law, The Institute will include, on the first day, a panel on mutual agreement procedures with the U.S., Canadian and Mexican Competent Authorities and a representative from the Organization for Economic Cooperation and Development (OECD). Additional sessions include interpreting tax treaties, revisiting check-the-box regulations and joint venture issues, and hedging for multinationals. Acting Commissioner Michael P. Dolan will be a featured speaker. The second day will include sessions on controversial cross-border transactions, "Ask the IRS" panel, U.S. multinational update, and inbound developments.

Those interested in attending may obtain more information from The George Washington University, Conference Management Services, by calling (202) 973-1110 or visiting the Internet site at <http://www.gwu.edu/~cms/tax/>.

The Collection Financial Standards on the Internet

Announcement 97-87

The standards used by the Internal Revenue Service as the basis for determining

collection actions, including installment agreements and offers in compromise, are now on the Internet. The Collection Financial Standards are on the IRS' World Wide Web site "The Digital Daily," under "Tax Info for You."

The Collection Financial Standards are used when a taxpayer claims an inability to pay a delinquent tax liability.

Allowances for food, clothing and other items, known as the National Standards, apply nationwide except for Alaska and Hawaii, which have their own tables. Taxpayers are allowed the total National Standards amount for their family size and income level, without questioning amounts actually spent.

Maximum allowances for housing and utilities and transportation, known as the Local Standards, vary by location. Unlike the National Standards, the taxpayer is allowed the amount actually spent or the standard, whichever is less.

Qualified Personal Service Corporations That Used Incorrect Tax Rates Should Promptly File Amended Returns

Announcement 97-88

The Internal Revenue Service has found that many qualified personal service corporations had filed using the incorrect tax rate. Instead of computing tax using the flat Qualified Personal Service Corporation rate, the graduated corporate rate was used which understated the corporations' tax liabilities. Some practitioners have attributed the problem to difficulties with using certain computer tax software programs, while others acknowledged the mistakes as unintentional oversights.

A qualified personal service corporation is taxed at a flat rate of 35% on its taxable income. A corporation is a qualified personal service corporation if it meets both of the following tests:

- Substantially all of the corporation's activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and
- At least 95% of the corporation's stock, by value, is owned, directly or indirectly, by (1) employees performing the services, (2) retired employees who had performed the services listed

above, (3) any estate of the employee or retiree described above, or (4) any person who acquired the stock of the corporation as a result of the death of an employee or retiree (but only for the 2-year period beginning on the date of the employee's or retiree's death). See Temporary Regulations section 1.448-1T(e) for details.

The Service has been looking closely into this matter, and will continue to pursue compliance activities to identify taxpayers with the issue and bring them into compliance. In our ongoing efforts to foster taxpayer education and voluntary compliance, we would like to alert taxpayers and practitioners about the problem, and ask any qualified personal service corporations that

did not file using the qualified personal service corporation rate to promptly file amended returns with their respective IRS service center to correct the error. Prompt filing will minimize interest assessments.

Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it ap-

plies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in law or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in the new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the

new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C.—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.

E.O.—Executive Order.
ER—Employer.
ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contribution Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign Corporation.
G.C.M.—Chief Counsel's Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.

PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.
PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statements of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

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Key to Abbreviations:

RR	Revenue Ruling
RP	Revenue Procedure
TD	Treasury Decision
CD	Court Decision
PL	Public Law
EO	Executive Order
DO	Delegation Order
TDO	Treasury Department Order
TC	Tax Convention
SPR	Statement of Procedural Rules
PTE	Prohibited Transaction Exemption

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